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PROSPECTS FOR ECONOMIC GROWTH

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Prospects for Economic Growth, Seri...

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HEARING

BEFORE THE

COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, MARCH 27, 1996

Serial No. 104-24



Printed for the use of the Committee on the Budget

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PROSPECTS FOR ECONOMIC GROWTH

WEDNESDAY, MARCH 27, 1996

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:05 a.m., in room 210, Cannon House Office Building, Hon. John Kasich (chairman of the committee) presiding.

Members present: Representatives Kasich, Kolbe, Shays, Herger, Bunning, Smith of Texas, Lazio, Franks, Smith of Michigan, Hoke, Brownback, Shadegg, Sabo, Stenholm, Slaughter, Coyne, Mollohan, Orton, Pomeroy, Olver, and Rivers.

Chairman KASICH. Mr. Chairman, I want to thank you for being here, and we might as well go ahead and get started.

We were supposed to have votes yesterday, and our votes don't start until 5 o'clock tonight, so I don't know how many members will be in and out, but I think you've got the most important ones right here, is what I can tell you.

Right, Martin.

Mr. SABO. Absolutely.

Chairman KASICH. He would agree with that.

I want to, first of all, obviously, congratulate you—I think that's what you want—on your reappointment. You will be the longest serving Chairman in history, is that right? At the end of that term won't it be the longest?

Mr. GREENSPAN. No, William McChesney Martin served longer.

Chairman KASICH. Oh. Well, we'll get you another term. How's that? [Laughter.]

You know, and here I thought Cigar was the greatest horse in history, and if he wins tomorrow he'll win 14 in a row. Citation had 16; see, I had them reversed, so I never get this right.

Anyway, I want to welcome you here this morning, and rather than my making—I think you've served the country very well, I'm very happy that you've been reappointed. I think the President has made a very good choice.

I think many of us share the same concerns. I'm obviously concerned about what growth is going to look like over the next few years. I'm very concerned about why America continues to have a low savings rate, why our productivity has fallen, all of which I believe contribute to stagnant wages, and I would like to hear your views on that, and what your remedies are.

Mr. Chairman, I'm just very glad that you took the time to be with us. I know you're not making appearances on the Hill before your confirmation; it's very important to me personally that you

were able to be here, and when you need your windows cleaned or whatever, just give me a buzz, Mr. Chairman.

I'll recognize Mr. Sabo for his comments.

Mr. SABO. Well, thank you, Mr. Chairman, and Mr. Greenspan. Welcome back to the committee today, and congratulations on your renomination.

I understand that by protocol we can't say congratulations on confirmation yet, but I expect that goes quickly and easily.

We heard from Alice Rivlin last week, and I am sure she also will be confirmed, and will bring great expertise to your Board, and will be a valuable member. We've enjoyed working with you in the past and look forward to working with both of you in the future.

I would also just simply have to comment, as someone who was in the position of Mr. Kasich, chairing this committee 2 years ago, we appreciated your support—not of specifics, but of the program we had of deficit reduction in 1993.

And, despite the claim of many critics that it would lead to horrendous things like increased deficits and recession, the reality is that the program we passed in 1993 worked, it brought the deficit down. The economy has responded, we've had increasing job growth in this country.

The program of 1993 laid the foundation for the potential in 1995 and 1996 of looking at another comprehensive program to further reduce the deficit, and get the Federal Government's fiscal house in order.

I know you continue to encourage us to do that. My hope is that we still find the capacity, politically, to do that.

I would only suggest to my Republican friends that it can be done, it requires a little bending and a little compromise and accommodation on the part of all of us. No package ever suits any of us perfectly, but it can be done in a pragmatic way, not an ideological way, which I think would have real long-term benefits for this country.

I continue to be deeply concerned over the growing income disparity in this country. Although our job growth is good, where income flows continues to be a major problem in our country.

It's one that I think we have to deal with, and clearly has to be part of the concern for the Federal Reserve also, because in the long-term I think it has significant impact on both the stability of our economy, and the stability of our society.

So I look forward to hearing your comments, and hearing your answers to questions later on. Welcome.

STATEMENT OF HON. ALAN GREENSPAN, CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. GREENSPAN. Thank you very much.

Thank you, Mr. Chairman. I always appreciate the opportunity to appear before this committee.

As you know, I discussed current economic conditions and the outlook rather extensively in appearances before the House and Senate Banking Committees just over a month ago. Today I would like to provide a brief update of comments that I made then, and reiterate my views on some key issues that are important for our Nation's economic prospects over the medium term.

A month ago, the economy clearly had been perceived as soft over the latter part of 1995 and early weeks of 1996. There were uncertainties, however, both about the factors that might have given rise to the softness in activity and the degree to which that softness might persist.

Although not all of the uncertainties have been resolved, recent data have confirmed the expectation that a good bit of the economic sluggishness of late 1995 was related to inventory investment. The efforts of businesses to reestablish more desirable relationships between their holdings of inventories and their actual and prospective levels of sales held down production.

Toward the end of last year, the inventory adjustments reached a point at which stocks actually were being reduced in the aggregate. Although January, with its unusually severe weather, apparently resulted in goods being bottled up for a time in some parts of the economy, the underlying picture, as best we can discern, seems to be one in which much, but perhaps not all, of the needed inventory correction already has been accomplished.

Ultimately, of course, the inventories that businesses want to hold will depend on the growth of final demand. At present, there are some factors, such as high consumer debt levels, that still may be working to restrain spending. But the recent data seem to indicate that those restraining influences are not so strong as to seriously jeopardize the continued expansion of the economy.

Data for February showed increases in sales of motor vehicles and other types of goods that are purchased at retail, and housing starts rose further last month. In the business sector, real outlays for fixed capital still appear to be trending up.

The labor market reports for February provided additional evidence that the economy is moving past the disruptions that had slowed it in previous months. Payroll employment surged in February, more than reversing the losses of January, and the unemployment rate, after having ticked up in January, dropped back last month. It is possible that the February data may have exaggerated the strength of the labor market to some extent, as we've not seen a similar degree of strength in other labor market indicators, such as initial claims for unemployment insurance. But even so, the current economic expansion seems to have exhibited staying power. The strike that has recently affected the motor vehicle industry is likely to result in additional volatility over the near term, but like the disruptions of this past winter, it should not have a great impact on underlying trends in the economy.

The most recent reports on inflation also have been reasonably encouraging. Price increases at the consumer level have been moderate, on average, in the early part of 1996, and the 12-month change in the CPI has remained near recent lows. In addition, producer prices have been well-behaved early this year; the prices of finished goods changed little over the first 2 months of the year, and materials prices in the Producers Price Index continue to edge down.

While monetary policy, as always, will need to be alert to inflation risks as we move forward, the recent economic data suggest that the economy should be able to continue operating at a high level of resource utilization, sustaining growth without risking a re-

versal of progress that has been made toward the goal of price stability.

As I noted last month, structural forces may be assisting us in this regard. Introduction of new technologies into a wide variety of production processes is affecting production costs and business pricing throughout the economy. Successive generations of these new technologies are being quickly embodied in the Nation's capital stock, and older technologies are, at a somewhat slower pace, being phased out. As a consequence, the Nation's capital stock is turning over at an increasingly rapid pace, not primarily because of physical deterioration, but reflecting technological and economic obsolescence.

A major challenge that we face during this period of rapid technical change is that of altering, with minimal disruption, not only the existing organizational structures and production methods of firms, but, even more important, the skills of the labor force. At present, the more rapid advance of information and communications technology, and the associated acceleration in the turnover of the capital stock, are being mirrored in a brisk restructuring of firms. In line with their adoption of new organizational structures and technologies, many enterprises are finding that their needs for various forms of labor are evolving just as quickly. In some case, job skills that were adequate only 5 years ago are no longer as relevant. Partly for that reason, most corporate restructurings have involved a significant number of permanent dismissals.

It would be neither feasible nor desirable to try to restrain the technical forces that lie behind the huge structural changes that are playing themselves out in the business world and in the workplace. But we can take steps that will help ease the transition between the old and the new.

Firms and employees alike need to recognize that obtaining the potential rewards of the new technologies in the years ahead will require a renewed commitment to effective education and training, especially on-the-job training. Such a commitment is essential if we are to prevent the disruptions to lives and the Nation's capacity to produce that arise from mismatches between jobs and workers.

We need to improve the preparation for the job market our schools do, but even better schools are unlikely to be able to provide adequate skills to support a lifetime of work. Indeed, ensuring that our labor force has the ongoing education and training necessary to compete in an increasingly sophisticated world economy is a critical task for the years ahead.

Fortunately, economic successes of the past decade or so have put us in a better position to meet the challenges that remain. We have made significant and fundamental gains in macroeconomic performance in recent years that enhance the prospects for maximum sustainable economic growth.

Inflation, as measured by the Consumer Price Index, has been gradually reduced from a peak of more than 13 percent in 1979 to about 2½ percent last year. Lower rates of inflation have brought a variety of benefits to the economy, including lower long-term interest rates, a sense of greater economic stability, an improved environment for household and business planning, and more robust investment in capital expenditures. Hopefully, the years ahead will

see further progress against inflation, and the eventual achievement of price stability.

We have also made considerable progress on the fiscal front. Over the past 10 years, and especially since 1993, our elected political leaders, through sometimes prolonged and even painful negotiations, have been successful in reaching several agreements that have significantly narrowed the budget deficit, but more remains to be done.

As I have emphasized many times, lower budget deficits are the surest and most direct way to increase national saving. Higher national saving would help to reduce real interest rates further, promoting more rapid accumulation of productive capital embodying recent technological advances.

Agreement is widely shared that attaining a higher national saving rate quite soon is crucial, particularly in view of the anticipated shift in the Nation's demographics in the first decades of the next century. As recent events in financial markets seem to have demonstrated, delay in taking meaningful action on the budget comes at a cost. Although the backup of long-term interest rates this year surely has been in large part a reflection of an economy on firmer footing than many market participants had thought, long-term rates also have been affected by perceptions in the market that priorities may be shifting away from deficit reduction.

Lower inflation and reduced budget deficits will by no means solve all of the economic problems we face. But the achievement of price stability and Federal budget balance or surplus will provide the best possible macroeconomic climate in which the Nation can address other economic challenges, including those that arise as side effects of the otherwise beneficial and highly desirable process of technological advance.

Thank you very much, Mr. Chairman.

PREPARED STATEMENT OF HON. ALAN GREENSPAN, CHAIRMAN, BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

I appreciate the opportunity to appear before this committee once again. As you know, I discussed current economic conditions and the outlook rather extensively in appearances before House and Senate Banking Committees just over a month ago. Today, I would like to provide a brief update of comments that I made then and reiterate my views on some key issues that are important for our Nation's economic prospects over the medium term.

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Although not all of the uncertainties have been resolved, recent data have confirmed the expectation that a good bit of the economic sluggishness of late 1995 was related to inventory investment. The efforts of businesses to reestablish more desirable relationships between their holdings of inventories and their actual and prospective levels of sales held down production. Toward the end of last year, the inventory adjustments reached a point at which stocks actually were being reduced in the aggregate. Although January, with its unusually severe weather, apparently resulted in goods being bottled up for a time in some parts of the economy, the underlying picture, as best we can discern, seems to be one in which much, but perhaps not all, of the needed inventory correction already has been accomplished.

Ultimately, of course, the inventories that businesses want to hold will depend on the growth of final demand. At present, there are some factors, such as high consumer debt levels, that still may be working to restrain spending. But the recent data seem to indicate that those restraining influences are not so strong as to seriously jeopardize the continued expansion of the economy. Data for February showed

increases in sales of motor vehicles and other types of goods that are purchased at retail, and housing starts rose further last month. In the business sector, real outlays for fixed capital still appear to be trending up.

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A major challenge that we face during this period of rapid technical change is that of altering, with minimal disruption, not only the existing organizational structures and production methods of firms but, even more important, the skills of the labor force. At present, the more rapid advance of information and communications technology and the associated acceleration in the turnover of the capital stock are being mirrored in a brisk restructuring of firms. In line with their adoption of new organizational structures and technologies, many enterprises are finding that their needs for various forms of labor are evolving just as quickly. In some cases, job skills that were adequate only 5 years ago are no longer as relevant. Partly for that reason, most corporate restructurings have involved a significant number of permanent dismissals.

It would be neither feasible nor desirable to try to restrain the technical forces that lie behind the huge structural changes that are playing themselves out in the business world and in the workplace. But we can take steps that will help ease the transition between the old and the new. Firms and employees alike need to recognize that obtaining the potential rewards of the new technologies in the years ahead will require a renewed commitment to effective education and training, especially on-the-job training. Such a commitment is essential if we are to prevent the disruptions to lives and the Nation's capacity to produce that arise from mismatches between jobs and workers. We need to improve the preparation for the job market our schools do, but even better schools are unlikely to be able to provide adequate skills to support a lifetime of work. Indeed, ensuring that our labor force has the ongoing education and training necessary to compete in an increasingly sophisticated world economy is a critical task for the years ahead.

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We have also made considerable progress on the fiscal front. Over the past 10 years and especially since 1993, our elected political leaders, through sometimes prolonged and even painful negotiations, have been successful in reaching several agreements that have significantly narrowed the budget deficit. But more remains to be done. As I have emphasized many times, lower budget deficits are the surest and most direct way to increase national saving. Higher national saving would help to reduce real interest rates further, promoting more rapid accumulation of productive capital embodying recent technological advances. Agreement is widely shared that attaining a higher national saving rate quite soon is crucial, particularly in view of the anticipated shift in the Nation's demographics in the first few decades of the next century. As recent events in financial markets seem to have demonstrated, delay in taking meaningful action on the budget comes at a cost. Although the backup of long-term interest rates this year surely has been in large part a reflection of an economy on firmer footing than many market participants had thought, long-term rates also have been affected by perceptions in the market that priorities may be shifting away from deficit reduction.

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Chairman KASICH. Thank you, Mr. Chairman.

I want to display a few charts here, but I want everybody to understand, particularly my Democratic colleagues, that this is not an attempt—I don't know what the titles they have on the charts are, but I don't mean these to be a political statement here. [Laughter.]

Take the top off. I really—let me just ignore—sometimes my overzealous staff here—where it says "The Anemic Clinton Economy," just, for just a second, ignore that, OK? And let's just talk about these things that I'm very concerned about.

First of all, what this attempts to do is to show real growth, in this chart, 5 years from when we come out of a recession, and what we experienced at the end of the recession.

As you can see, in the glory years of 1961 to 1966, we had a 32-percent growth, and then from 1975 to 1980 we had 23 percent, and then in 1982 to 1987, 23 percent, and now 1991 to 1996 it's a 12-percent growth.

Put the other ones—we'll go through this, because I'm concerned about the trends. Job growth, 16 percent in 1961 to 1966, and you can see it peaks up and then back down, and then 1991 to 1996 just an 8-percent growth, which begins to demonstrate that this has not been the kind of recovery that we've been able to see in the past.

Bruce, the next one. This chart bothers me a great deal, because it shows productivity, amazingly, during the Kennedy-Johnson years at 23 percent, all the way down to just 6-percent growth in productivity today, and I'm very fearful that that is trending down, in light of some structural things that are currently happening.

And then finally, the wage and benefit growth, and of course some of these you have to look at on the base of where we started from, but only 3-percent wage and benefit growth, and while we have a title at the top of that chart, "Anemic Clinton Economy," I think it's more a statement of a national problem as opposed to one that we need to look at through partisan glasses.

What I'm concerned about, Mr. Chairman, and you mentioned it in here, is this issue of low savings, and I want to make the case this morning that when we talk about a low savings rate, we're not

just talking about personal savings, but we're talking about—am I correct?—in your interpretation, that every year the amount of wealth we produce, how much of it we save and how much of it we consume.

We had a gentleman here, an economist from Boston University, who will argue that it is not only the amount of money that governments are consuming, or the amount of debt that a government is incurring, but in fact we have been consistently, over the last 15 to 20 years, transferring resources from savers to consumers.

And that, if in fact we cannot stop this shift from savers to consumers, in light of even the size of government, when you get inside the size of government, we're creating distortions now that keep us from being able to obtain a higher national savings rate.

Would you comment on that? Your view on that?

Mr. GREENSPAN. Well, certainly the issue that you're raising is a terribly fundamental one, and it strikes me that we've got a major problem for the long-term future if we do not stop the drain on the national saving that has been the consequence of very significant chronic and prolonged budget deficits.

I think that we have been fortunate in a certain respect—namely, that we have been able to attract significant amounts of foreign saving in order to finance our domestic investment. Indeed, that's the definition of the current account deficit, which has two sides to it.

We cannot continue to expect that we are going to be able to continually borrow from abroad at the rates that we have, and we also cannot really continue to expect that, with the very low level of net investment that we've had, that we can get even as much productivity as your data up there show.

The reason we've been able to achieve what we have is that we have been extraordinarily skillful, and the technological advances have really been very impressive. In that sense we're getting a lot more productivity out of less investment than one could expect under certain circumstances.

My own impression, however, is that some of the data, as a result of the next revision 5 years from now, will look a little better. Largely because of the technology that is occurring, I don't think we're measuring our GDP fully. We're expensing a number of items that should be capitalized, or more exactly, that the markets are saying should be capitalized, and they're the ultimate determinant of what wealth is all about.

Also, just to make certain we get the proper balance here, part of the fact that the red parts of the chart are lower than the others is that the 1991 recession was shallower than most, so that the actual comeback is not all that great.

But the essential point that concerns you I would certainly subscribe to—namely, that we are not getting the productivity that we need, we're not getting the growth that the American people apparently would like to see, and a goodly part of the reason for that is our failure to keep the national saving rate up. The most important deterrent to that has been the continuous drain that our ongoing, unified budget deficits have created.

Chairman KASICH. But it would not be just balancing the budget. I mean, you could balance the budget by raising taxes. It would be

the size of the number of resources that government consumes, correct?

Mr. GREENSPAN. Certainly.

Chairman KASICH. So the size of government is a significant impact on your national savings rate. Secondly, with inside the government, as you transfer, as that government transfers resources from investment opportunities, or from savers to consumers, you also deplete your national savings rate, correct?

Mr. GREENSPAN. Well, what you can certainly say is that as you move resources from investment, which creates further growth, to consumption, which does not, you lose capital stock, which is obviously the mirror image of the saving rate.

Chairman KASICH. Right. So, in other words, America now has a historically low national savings rate, and I don't mean individual savings.

Mr. GREENSPAN. Correct.

Chairman KASICH. Again, people think that is only comprised of how much I put in an IRA; that's not what the issue is. I've raised it in here three or four times, and I think we need to understand this—this is critical.

So if you have the historically low national savings rate, it guarantees a historically low investment rate, excluding foreign dollars that would flow into the country, correct?

Mr. GREENSPAN. That's an accounting identity.

Chairman KASICH. And a very low investment rate means very, very low productivity. Is that correct? Improvement in productivity.

Mr. GREENSPAN. Other things equal. The issue I raised before—namely that the efficiency of the capital which we put in place, meaning the technological capabilities of it not just the addition in dollars—is obviously a crucial issue.

Chairman KASICH. OK, now we're going to get this out of the classroom and right on the assembly line. All of that means for our workers stagnant wages and an inability to compete, is that not correct?

Low national savings, low investment, low productivity mean we lose.

Mr. GREENSPAN. Ultimately the real wage rate of the American worker is tied to the productivity level. It's a long-term, historical relationship which has veered off only slightly in recent years more because of a peculiarity of the way we price goods and services.

Chairman KASICH. Let me ask you about generational accounting. Your bank out at Cleveland, the Cleveland Fed, has shown great interest in generational accounting, putting the kind of burden that the next generation is going to have on their back at about—I don't know what their numbers are, but we've got numbers that indicate 84 cents out of every dollar to be taxed by government, under the current size of government, and the current benefits.

You know, when we talk about a national debt, we're not talking about how Charlie and I are going to get supported when we retire. We're only talking about current obligations, not future obligations.

What is your sense of this issue of generational accounting, and whether this ought to be part of our—Charlie getting his, obviously, one heck of a lot sooner than me. [Laughter.]

But what is your sense of this issue of generational accounting, generational transfer? I know that your bank has shown interest; what is your view?

Mr. GREENSPAN. Mr. Chairman, I think that it is codifying into a more technical procedure something which we've discussed in this committee on numerous occasions, namely that there appears to be an underlying momentum in government which is increasingly reaching for private resources on an upward-ratcheted basis.

And what that ultimately means is that you are on a trend which is fundamentally in disequilibrium; meaning, it can't get there from here.

Chairman KASICH. That sound bite ain't going to make MTV there, Mr. Chairman.

Mr. GREENSPAN. I'm delighted.

Chairman KASICH. Fundamental disequilibrium. Go ahead.

Mr. GREENSPAN. If generational accounting makes MTV, they've obviously got a different license. [Laughter.]

But let me just finish my point.

Chairman KASICH. Yes, sir.

Mr. GREENSPAN. The critical example of this is the Social Security Fund, where we know that the commitments under current law, and expected law, are sufficient to undermine all possibilities for paying for that amount of benefits as we get into the middle of the next century.

That's an extreme case of the problem where the commitments of the system overwhelm the income generating capacity of the system, and therefore to pay for it you have to create very high tax rates for the people who are working then—the next generation or the generation thereafter.

If you put this into a much broader conceptual base, and you try to encompass all of government in the same context, what such studies of generational accounting have shown is that under the existing structure of commitments, within a fairly broad range of assumptions, you get indications that we are out of synch at this stage.

That's the same thing as being in disequilibrium.

Chairman KASICH. I got you.

Mr. GREENSPAN. If that is the case, it is saying that the long-term policy posture of the American government has got to change at some point.

On the lesser question that you asked, Mr. Chairman, of whether or not that should be included in our accounts, well, as you know, it is included in OMB's accounts. CBO—

Chairman KASICH. No, it's not.

Mr. GREENSPAN. No, not officially. CBO has chosen not to, even though the general procedure of generational accounting actually contributes a good deal to our knowledge of how to evaluate long-term governmental commitments and their impact on individual taxpayers by generations. The assumptions one must make, including those on long-term government purchases and the like, are sufficiently loose that you get too much of a sense of robustness, as economists like to say, in these calculations than there really is.

CBO has concluded, and I would agree, that it is a useful tool for purposes of analysis, but I would avoid codifying it in the law

and in budget procedure because it's undergoing significant change every year. Even though the principles don't change very greatly, the numbers change, and it's probably best at this stage to use it as a tool, and not give it the same status as anything that is in the officially published budget.

Chairman KASICH. Mr. Chairman, I know we have a lot more members. I want to commend to you, however, the front page of the New York Times yesterday, and the Tucson, AZ, study—I want to congratulate Mr. Kolbe on an incredible study, reflecting enormous satisfaction and savings in the area of Medicare, which holds out, I think—well, it just is unbelievable.

The article—everybody in this country ought to read it, especially if you have a mother or a father who is a senior citizen, you want to read it, because it shows how much our seniors can benefit under a plan of choice.

But finally, Mr. Chairman, the area of education and training is one—look, it's amazing to me that the CBO is predicting a shrinking population yet a higher unemployment rate in the next century, I think reflecting the fact that we're just simply not getting our people prepared to work.

Now, we all—education and training, it's like saying, you know, I want to go to heaven. I mean, nobody can argue with it, except if the education isn't happening, and the training isn't being achieved.

If you could quickly tell us what you think this Federal Government should do to achieve, one, quality education into the 21st century, and secondly, a training program that our workers can enroll in, that would allow them to be able to take advantage of the technologies of the 21st century.

Then Mr. Sabo.

Mr. GREENSPAN. Yes. Mr. Chairman, the question of training is terribly crucial, because the old notion that somehow we got all of the education that we would need for a lifetime of work by the time we were either 18 or 22 is long since gone.

The important area for training is going to become increasingly the business establishment itself. The reason is that the skills required in individual companies tend to be sufficiently different from those of their competitors or certainly other areas of the economy, that generic training, while broadly useful for certain types of people and certain types of occupations, is really not all that useful for an individual company that's got a very localized, major technical problem which requires a special skill.

That special skill is not readily taught in universities, or in high schools. You've got to do it on the job, because the only people who know how to do it are those who are doing it.

And the fact that we are already getting large numbers of companies which have corporate universities and that you're required to go to their school on company time a couple of times a week to learn the things you're doing on the job is evidence of this trend. And secondly, a wholly new industry is evolving which is basically on-the-job training of these new, specialized skills.

Now, to whatever extent government can be helpful in that process, that's all to the good. But I think the important issue to focus on is that the type of on-the-job training and skill-oriented training

that I'm concerned about most is this type of training which lifts the whole skill level to be able to meet the new technologies with which we're working.

This does not mean that we should not be terribly concerned about whether our kids are learning algebra and calculus, and can do appropriate essays—that's crucial and a given. If we don't do that, then these corporate universities won't be able to function.

So it's a whole structure of post-school education which is going to become increasingly business-enterprise related because it's in the self interest of those companies to invest in their people. It's a new type of capital expenditure and I suspect somebody's going to start raising the question of whether or not it should be capitalized, because that's just as important as putting in a new piece of equipment.

Chairman KASICH. Thank you very much.

Mr. Sabo.

Mr. SABO. Thank you, Mr. Chairman.

First, let me note about your chart. Unless history deserts me, 1991 and 1992 were Bush years.

Chairman KASICH. Yes.

Mr. SABO. You know, Mr. Chairman—

Chairman KASICH. Mr. Sabo, could I just tell you, I regret that that's up there. Let me tell you why. I think the issue of—I mean, it's a fact that those are the years, but I am just as concerned as you are about what's happened to our fathers, and our children, and I believe this is an issue that we've got to attack on a bipartisan basis, and recognize the facts.

So, the fact that that's there, I didn't have a chance to go over the charts this morning, or I would have put a little white tape over them. Not that I won't make the argument of what's happened now, but I don't think we want to politicize it.

Mr. SABO. Mr. Chairman, I think all of us agree that increasing the savings rate is absolutely crucial, and reducing the deficit is key.

I suppose an advantage of being here for a period of time is, one has heard a variety of arguments at different times. I sat, in 1981, and heard, in a committee meeting, the then-Secretary of Treasury tell us that the savings rate in the country was a problem. He said what we had to do was pass a broad, across-the-board tax cut, to increase the savings rate in the country, in, I suppose, January or February 1981.

The Congress proceeded to pass that tax cut, the deficit exploded, and if I recall right, the savings rate in this country plummeted in the 1980's.

And regularly, over the years, I keep hearing the advocates for a variety of proposals say that if we simply borrowed some money to pay for a certain tax preference, that would increase the savings rate.

Generally my sense has been that most of them end up costing us more in savings than simply giving people preference for what they may or in many cases what they would have done without the preference. As a result, we make the problem worse rather than help the problem.

But let me ask this question: In terms of the investments we make, is there a difference? Many folks suggest that our whole Tax Code is skewed, so we put too much into real estate, versus machinery, equipment.

Do you think that's accurate?

Mr. GREENSPAN. Well, I think it's accurate in the sense that the effect of the Tax Code is to shift investment from productive assets to residential and commercial real estate.

The question is whether, in fact, the Congress fully intends for that to happen, and my impression is that the answer is "yes."

Mr. SABO. Yes, we intend it to, but if we had a pile of capital in this country, and we could influence it somewhat through the Tax Code, where should our priority be?

Mr. GREENSPAN. Well, if one's desire is to increase economic growth, and productivity is the only way to do that, my priorities would be to invest in productivity producing capital investment.

Mr. SABO. Which would be plant—not necessarily plant, but machinery, equipment—

Mr. GREENSPAN. Well, in a very broad sense as I was indicating implicitly before, there are a lot of things that we expense now which we should be capitalizing, because they do increase productivity, and I would be more inclined to look at it not so much as whether it's plant or equipment. The old version of our view of this was that, if you didn't see a blast furnace or a coke oven out there, it wasn't productive.

But we now find that software, R&D, increasing intellectual skills in areas, different types of productivity producing endeavors, are very important, and indeed are, and should be, included in capital investment.

So I think one of the things we have to do is to broaden our view of what it is we're talking about in this.

Mr. SABO. So you would include R&D; education and training?

Mr. GREENSPAN. Not all R&D, not all education and training.

Mr. SABO. But some.

Mr. GREENSPAN. Yes. In other words, don't rule out areas which we have conventionally left off the table when we viewed what we considered capital investment. It has basically been accountants who have made that judgment.

I think the markets are telling us that they're behind the curve.

Mr. SABO. What about investments like roads, sewer systems?

Mr. GREENSPAN. Yes, there is a considerable degree of dispute within the economics profession as to just how much so-called public infrastructure investment adds to the productivity of the economy as a whole.

You can get a panel up here on that subject, and I guarantee you will get differences of view which go from here all the way to there, and they will all sound credible.

My own judgment is I've been somewhat suspicious of evidence that suggests that there is a lot of potential productivity created from a very significantly increased public infrastructure, but the issue is a debatable issue.

Mr. SABO. But the final conclusion then, in terms of what we could do to have the most direct impact on increasing the savings

rate would be to continue to significantly reduce the Federal deficit?

Mr. GREENSPAN. Absolutely.

Mr. SABO. Let me ask one other question that I'm just sort of curious about. We see all these reports that talk about changes occurring in our economy. Clearly we had the greatest growth and expansion through the 1950's and 1960's.

Then one starts reading about changes occurring in the early 1970's, and one is never sure if it's because two things occurred at the same time that they're related or not.

But lots of it tied to the first oil shock that, as I recall, was 1971, 1972—I forget the exact year—back when John was in grammar school.

Chairman KASICH. Just don't forget it.

[Laughter.]

Mr. SABO. And I'm just curious. Maybe there are folks who have looked at the impact of that. I know the oil prices and gas prices, in terms of value today, are back at practically preshock levels, but it always seems like something happened in that period of time—that two events occurred roughly at the same time.

To what degree was or is there a relationship, do you think?

Mr. GREENSPAN. Well, it's quite true, they did occur in 1973.

Mr. SABO. In 1973.

Mr. GREENSPAN. We had a test of the hypothesis of the extent to which the oil shock was all that critical when oil prices dropped sharply in the mid-1980's. And while there was some evidence that that fact did enhance economic activity, it clearly was very much less than the apparent presumed shock when prices rose sharply in 1973. My own suspicion is that there was probably something there from the oil shock of 1973, but a good part of the relationship is probably fortuitous.

One of the things that did occur when you look through this whole period is that the growth in the labor force was slowing fairly dramatically. When we look at some of the very large, 4-percent-plus average growth rates that we experienced back in the 1960's, and say, why can't we do that today, a goodly part of that was the fact that the labor force was growing very substantially faster than it is today. Part of the problem today is merely demographics, which I don't think we can argue is a fundamentally economic phenomenon.

But there is no question that the rate of growth and productivity have slowed down quite appreciably, no matter how we measure them.

Mr. SABO. I thank you.

Chairman KASICH. Mr. Brownback.

Mr. BROWNBACK. Thank you very much, Mr. Chairman, and thank you, Mr. Greenspan, for joining us today, and enlightening us.

I'm curious, I was reading a study that was done by a Professor Galloway, from Ohio University, for the Joint Economic Committee, and he was saying in that study that the size of the Federal Government is too big, it is holding back the growth in the overall economy.

He was suggesting in that, through some work that he had done, that if we could hold the size of the Federal Government to roughly around 18 percent of the economy, we could experience a growth rate of around 4 or 4½ percent instead of the 2 to 2½ percent that we've been at here in recent times, and have been slowing down on.

I'm curious if you've thought much about that, or you've had economists looking at that, or if you'd have a comment that you'd care to make about that—growth rate versus the size of government in that sort of percentage area.

Mr. GREENSPAN. Yes. I have not seen the study, and therefore I can't have any really useful insight into it. I find the results quite surprising because it's not the type of result that others are getting.

I have no doubt that if we were to reduce the size of government, reduce the tax burden, reduce marginal tax rates, that we would get increased growth. But it's difficult for me to envisage that productivity would go basically from an annual increase of 1 percent to 3 percent, which is really quite an extraordinary change, with what is really a relatively modest decline in the size of government.

Mr. BROWNBACK. So would you advocate a greater reduction in the size of government, then, to get a higher productivity rate then?

Mr. GREENSPAN. I've always advocated that. I've been doing it since I was Chairman of the Council of Economic Advisers, when he was in kindergarten, or wherever he was.

Mr. BROWNBACK. Well, when John was in kindergarten, I think I was about there too. Well, I was probably just getting born at that point in time, I guess.

Chairman KASICH. He's got a problem with these young people today, Alan.

[Laughter.]

Mr. BROWNBACK. What is the right size of government, as a part of the economy, for optimal growth, and for restoring the American dream?

Mr. GREENSPAN. Well, if growth is your only decision, then what you really want is a government whose sole purpose is the protection of rights, minimum defense, a variety of very small government operations.

I suspect that you'd probably get maximum economic growth, but the consequences and the tradeoffs in a variety of other areas would probably be unacceptable to a very significant part of the Congress. It would probably be the type of growth which would have no safety net, have a level of deregulation which probably would not be acceptable to the majority of the Congress, and presumably the American people generally.

My own personal views over the years have always been to move in that direction, but I think it's terribly important for us to recognize that there are different values in the system, and that indeed you have to decide how you trade them off.

And the reason why we have a government as large as we do at this stage is basically that there have been tradeoffs which one must presume are reflective of the democratic society that we have.

But if you're asking me strictly on the growth issue, I'm sure there are numbers of people who would disagree with me on this, but the more you can move down the size of government, probably the better.

You'd better have a second opinion on that, because I'm way out of the norm on this particular issue.

Mr. BROWNBACK. Thank you, Mr. Chairman.

Chairman KASICH. Mr. Orton.

Mr. ORTON. Thank you, Mr. Chairman.

Over here on your right, Mr. Chairman.

Mr. GREENSPAN. I recognize your voice, Congressman.

Mr. ORTON. It's a pleasure to have you here, I thank you for the work that you have been involved in in your term as Chairman of the Fed, and I'd like to commend President Clinton for nominating you for a second term. I believe that was a correct move to make, and it reflects the job that you have done.

I would like, before asking you my principal question, to back up and follow up on the line that my colleague from Minnesota, Mr. Sabo, was conducting, on the tax issues, and that was a very beneficial exchange.

I would like to just expand it one step further, and ask what your opinion would be, or effects on growth in the savings rate and other side impacts if, in fact, we shifted drastically in our policy from taxing income and profits to taxing consumption.

Clearly, that kind of a shift would then put a disincentive on consumption, and most likely create incentives for savings and capital formation.

Have you given any analysis to that kind of a shift, as opposed to simply lowering the marginal rates on income, providing specific incentives for capital formation? What would happen if we shifted entirely, or significantly, to taxing consumption as opposed to income?

Mr. GREENSPAN. Well, I don't think there's any question that if you put a tax on consumption and none on saving, you're going to get more saving. How much, I think, is quite difficult to tell.

I and, to the extent that I'm aware of, my colleagues have not done enough analysis on such issues to be able to give you anything of a numerical estimate. But the sign probably is clearly unequivocally positive.

Mr. ORTON. And if we did that, as you point out, it's not simply the savings rate that is the sole determining factor of productivity and economic growth and so on. Obviously, if you put such a disincentive on markets that you're taxing consumption, that may have a slowing impact on the markets, because people would be less likely to go out and consume, thereby we would be producing less.

I mean, let me just suggest, I think it would be very valuable if you and others would in fact start looking at that, because, in my opinion, as I look at what has been taking place in the Ways and Means Committee on both sides of the aisle, as I look at other countries with border adjustable taxes and the impact that has on our trade, our trade deficit, the impact that has on the cost of goods sold that are imported into our country, as well as exported from our country.

It seems to me that we are going to have to move to some type of a consumption tax, and I think it would be very beneficial to do that knowledgeably. So, if you have not been looking at the broad impact of those types of policy shifts, it would be very beneficial for us if you would look at that.

Mr. GREENSPAN. Well, we'll try to do more than we were doing.

Let me just say, parenthetically, that I wouldn't be concerned that a consumption tax, per se, reduces the level of economic output. It should only change its composition, because if you get more saving, presumably you get more investment, so you would get a shift in the proportion of saving to income, and a shift in the proportion of investment to gross domestic product.

But there's no reason why either income, in total, or output should be materially altered by that tax structure—I mean, altered in the sense that the levels would be appreciably lower.

There's no reason to expect that. Indeed, if you get more investment, over the longer run you'd expect the levels of output would actually be higher. And one must presume that even the level of consumption would be higher, because the aggregate level of output, with increased productivity coming from investment, would be higher.

Mr. KOLBE [presiding]. The time of the gentleman has expired. The gentleman from Arizona, Mr. Shadegg, is next.

Mr. SHADEGG. Mr. Greenspan, I'm glad to have you back here.

Mr. GREENSPAN. Thank you.

Mr. SHADEGG. I want to congratulate you on your reappointment. I must confess, I have not been in agreement with the President on many issues in the past year, but on that one I was very much in agreement with him.

I want to take you back to your testimony a year ago. I believe in that testimony you were asked a question by the chairman, Mr. Kasich. The question essentially went, what do you think would be the effect of this Congress having the discipline to balance the budget in a period of 7 years or something close that?

And as I recall, you began a fairly technical explanation, and then the chairman interrupted and said, no, I want to know the practical effect, and you said, well I believe—if I am accurately characterizing your testimony—I think the American people could once again look forward to their children doing better than themselves—that is, a restoration of the American dream.

We didn't achieve that goal, but you were also prophetic that day, because one of my colleagues on the other side said to you, gee, given these numbers, you've been around this town for quite some time, aren't you worried that if we, in fact, do what the majority is proposing to do, and that is balance the budget in 7 years, that there will be economic dislocation?

And you paused for a moment and reflected, and said—essentially you said, son, I lose no sleep over the prospect that the Congress will cut spending too far or too fast. [Laughter.]

Regrettably, that turns out to be true. We did not cut spending too far or too fast.

I am concerned, it seems to me your testimony a year ago said that were we able to balance the budget, it would have an impact on interest rates. Indeed, my understanding of your testimony was

that we could look forward to interest rates dropping by perhaps as much as 2 percentage points.

We have not seen that to this date, have we?

Mr. GREENSPAN. We've seen part of it. What has happened is that, as it became increasingly credible to the financial community as we moved through last year that indeed the budget could conceivably be balanced, long-term interest rates proceeded to fall, and, as you may recall, they fell quite appreciably.

When it became apparent that a quick agreement was getting increasingly in difficulty, rates backed up. And as I indicated in my prepared remarks, even though most of the rate backup, so to speak, apparently reflects economic expectations, in my judgment there is nonetheless a significant part of that backup which reflects a refund, so to speak, of the early declines in long-term interest rates resulting from the expectation of the markets that there would indeed by now be a budget agreement.

So, in a sense, the markets have taken back part of that advance payment. I think the reason why the markets haven't come back even more is that there has been a significant reduction in the current year's budget deficit. In short, we're not confronted with continuing runaway deficits which, if not reined in very quickly, could do considerable damage to longer-term expectations.

We're confronted with, at this stage, a delay. The markets still presume that there is a political culture out there which one way or the other will bring the deficit down significantly.

So that, while there may be some discouragement, as best I can judge there is still a good degree of expectation that you will all succeed at some point in eventually bringing the deficit to bay.

My own impression is that is probably a reasonable expectation, largely because what's happened is a general awareness that deficits are not to the advantage of this country over the longer term, and the Congress and President are reflecting that view, and the markets are aware of this fact.

Mr. SHADEGG. So, if I understand what you're saying, we have achieved a degree of success. Had we been able to in fact balance the budget, we could have seen a full 2-percentage-point drop in interest rates, which would have been maintained into the future.

With the optimism we created we got some of that, with the markets believing that we were going to balance the budget, long-term rates did come down, and there remains some optimism that this Congress is now going to deal with this issue, and therefore we have not seen interest rates climb to the degree that they might.

I take it you stand by your prediction, if we were able to balance the budget we would in fact see that 2-percent decline, or even better, in interest rates, and all participants in this economy would benefit. Is that—

Mr. GREENSPAN. Yes. Now, remember it's 2 percentage points from where it was last year, but we're less than that now, obviously.

Mr. SHADEGG. Right.

Mr. GREENSPAN. So we've got part of it in the bank.

Mr. SHADEGG. But the dangerous trend is, we've now started back up.

Mr. KOLBE. The gentleman's time has expired. If you would let the Chairman answer, and then we'll go on to the next questioner.

Mr. GREENSPAN. That is correct. There's been, as I said before, some refund of that advance payment for the balanced budget.

Mr. SHADEGG. I thank you very much, and I would simply add that it seems to me that every American would benefit from that drop in the interest rate, and this Congress has to redouble its commitment to get to a balanced budget.

Mr. KOLBE. The gentleman from West Virginia, Mr. Mollohan, is next.

Mr. MOLLOHAN. Thank you, Mr. Chairman.

Mr. Chairman, the issue of keeping the American workers' capability current with employment opportunities—you allude to it in your statement—is critical to maintaining a standard of living, or an increasing standard of living, in this country.

It's a crucial issue in areas such as the areas I represent, and basic industry in America. We're really not doing an effective job at it.

You speak to that, and Chairman Kasich asked you a couple of questions about education and training, and in your statement on page 5 you talk about firms and employees alike need to recognize that obtaining potential rewards of new technologies in years ahead will require renewed commitment to effective education and training, and on-the-job training.

You speak to it a little later in that paragraph. You said, "Indeed, ensuring that our labor force has the ongoing education and training necessary to compete in an increasingly sophisticated world economy is a critical task for the years ahead."

I'm wondering, in your view, how does that happen in a real way? You talked about corporations providing on-the-job training in corporate schools, and I can see that as being satisfactory for training workers for specific employment opportunities.

But I don't see that as reaching the broad base of the American worker population, particularly those who are experiencing dislocations because of our marvelous technological advance and productivity improvements.

And I'm wondering if you see a role for the Federal Government in providing training, education, and what might that role be, in your opinion?

Mr. GREENSPAN. I'm not an expert in the particular area to give you any particularly good insights. What I can tell you, from the experiences that I've seen, is that, while it is true that there is as has always been the case an issue of people changing jobs, Americans still stay on their job for quite extended periods of time.

The turnover is somewhat greater than it was a while back, but, in general, the skills that one derives from specific on-the-job training should be fairly extensive.

And the reason I say that is that it's going to become increasingly to the profit interest of companies to upgrade the skills of their work forces because if, as I have indicated in different testimonies, we are increasingly moving toward a conceptual basis for output as distinct from the physical, ideas and skills and human capital are going to become an ever increasing part of the production of the economic value.

That is going to become, and indeed it already is becoming, fairly clear to a lot of high-tech companies. And what we are likely to see, as the years go on, is that an increasing proportion of American industry, the structure that is producing goods and services, is going to become ever more technologically oriented.

The computer-based chip output structure is still expanding very dramatically over all American industry, and we're going to see a major part of education being what we used to call on-the-job training, and is now just continuous skill upgrading.

I don't know where the role particularly of the government is, except that it should obviously encourage that trend. Clearly governments, especially local and State, are involved in honing the skills of people in kindergarten through high school and beyond, and I'm not sufficiently knowledgeable to know how we enhance that.

But clearly, unless we can improve the technically related skills of our younger people in areas of math and science and in language skills, that on-the-job training is not going to be as creative as it could be.

Mr. MOLLOHAN. Well, it doesn't seem to me that it's going to reach those who—many of those who are not being reached by this company training you're alluding to. I mean, I'm talking about the problem of the dislocated worker, really, right now, and—

Mr. GREENSPAN. Yes, we have always had that problem. I mean, it is not a new one, particularly, and I don't disagree with you that it is an important issue to address.

I am not sufficiently knowledgeable, however, to give you a program which would, in my judgment, successfully solve a number of the problems that clearly are there.

Mr. MOLLOHAN. Thank you, Mr. Chairman.

Mr. KOLBE. The time of the gentleman has expired.

Next is Mr. Shays of Connecticut.

Mr. SHAYS. Good morning, Mr. Greenspan.

Mr. Greenspan, last year you were here and you gave out a kind of a classic answer to a member's question—were you afraid that Congress would cut or slow the growth too much in government spending, and you said, you don't go to sleep at night fearful that when you wake up the next day you'll find that Congress has cut too much.

Do you still have that same view today?

Mr. GREENSPAN. Yes, sir.

[Laughter.]

Mr. SHAYS. When the Bureau of Labor Statistics announced unemployment down and the economy seeming to grow better, it never ceases to amaze me, and I think a lot of Americans, that when the economy seems to be doing better, the markets seem to get uneasy.

And I guess it's the concern that we're going to have inflation returning, and that you're going to advocate increasing interest rates.

What are you doing to allay people's concerns that that is not going to happen? Or is not happening.

Mr. GREENSPAN. I think you're quite right. As one can judge that event back on March 8, when we had a surprisingly large increase in employment, the bond market dove, and the stock market was very close behind.

The reason, basically, is that there was a fear, not so much that we would do anything, but that there would be inflationary pressures emerging, and inflationary pressures would embody themselves in long-term interest rates, and stock prices compete with bond prices, and consequently a significant decline in bond prices almost invariably creates a decline in stock prices.

It wasn't a view that increased employment and better economic activity was bad; it was a concern that it would create too much in the way of economic overheating, and therefore it reversed expectations and the markets responded to that.

But in general, higher economic activity and sustained economic growth create sustainable long-term profits, and that is good for stock prices, and indeed a noninflationary environment is good for bond prices.

Mr. SHAYS. Let me ask, when those numbers came out, were you as concerned as the bond markets were?

Mr. GREENSPAN. I'm sorry?

Mr. SHAYS. When those numbers came out, were you as concerned as the bond markets were, that this meant that we were going to have an overheating of the economy?

Mr. GREENSPAN. I wasn't, no.

Mr. SHAYS. Let me—I am ashamed to be part of a society that has allowed the national debt to grow 10 times in the last 22 years. I am ashamed of Republicans and Democrats, and I don't blame just the White House or Congress, I blame all of us.

But I read in your comments about the word "crucial," that we start to address the national debt, and we'll see our national deficits go down, but I don't sense a sense or urgency on the part of anyone that we need to really get our deficits down, even though we talk about it.

Let me ask you this question: I know, in terms of current dollars, our national debt was in 1945 \$260 billion, it's \$4.9 trillion, but in terms of inflated dollars it was \$2.7 trillion and \$4.9 trillion today.

But I guess my point is that when people compare the debt in 1945, which wasn't as bad—on a per capita basis it may be about the same—isn't there one big difference, and that is that the interest rates in 1945—first, we had just ended a war, and so obviously we were just going to spend whatever we had to spend.

But isn't another difference that in 1945 people were paying 0.75 interest rates, 1.25 interest rates, as opposed to a much higher rate today? And so doesn't that mean a significantly different burden on government today, in terms of interest rates?

Mr. GREENSPAN. Certainly.

Mr. SHAYS. I'm going to just end by just saying that I just think you can play a greater role in encouraging Republicans and Democrats to do a better job of getting their financial house in order.

I know you're up for reappointment, and that puts you in a dicey position, but I just really feel that neither the Congress or the White House is as determined as they should be to do that, and I sure would love you to speak out even more about it.

Mr. KOLBE. Mr. Stenholm of Texas is next.

Mr. STENHOLM. Thank you, Mr. Chairman.

Listening to your earlier comments to Chairman Kasich and to Mr. Sabo, the thought occurred to me, when we talk about produc-

tivity, and I want to use another example that's usually not included in the charts that we have seen—agriculture—and I've observed, as an industry agriculture has been very productive—our agriculture versus the rest of the world.

We have met and exceeded most productivity guidelines or examples, and that's the only way we've survived, those who have survived. But there are a lot less farmers today producing a lot more food and fiber, and that's productivity, that's where you do more with less, you make investments in equipment, you make those judgments of technology.

Here's my question: We have seen this progressive increase in productivity in agriculture; I suspect that we have also seen it in other areas as well, and it seems to me today to continue to expect to have the same productivity gains after you have done a pretty darned good job, based on anybody's definition of what is a good job.

But it would be more difficult to get tremendously improved increased productivity when the competition in the world market today has grown to the extent it has in the international marketplace.

What role does the international marketplace play to give the results that we saw on Chairman Kasich's charts, as we have seen this decline since the 1960's, to the 1970's, to the 1980's?

How much of that is policy, or lack of policy, in the United States, versus the fact that we have seen the world grow, and the international marketplace that we all talk about is putting those pressures back on us, to make it to where it's very difficult for us to meet those past numbers?

Mr. GREENSPAN. Congressman, what we're looking at is competition, and competition is the crucial driving force of economic growth, and as we've gotten ever increasingly involved in international competition, because basically the costs of transportation have been falling, we have increasingly created specialization of labor, and increasingly highly technical skills.

We have been, as an economy, very successful in being at the cutting edge of where the new technologies are, and, as a consequence of that, we don't have, as others do, the vantage point of looking to where we are.

And since they're not up to where we are, they can really increase productivity quite substantially by effectively copying our technologies. And indeed, our ability to stay ahead is largely a consequence of our ability to invent new things. For example, using your agriculture example, we've increased the yields on wheat and corn very substantially over the decades, largely by understanding qualities of new seed grains and fertilizers, and how to effectively farm the land.

And what we did is, we had the highest yields in certain very restricted areas as we developed the technologies, and then everybody came in behind us and raised the whole average up to a point where we are extraordinarily productive, overall.

That's what's happening to us in our economy generally. We're able to apply our technical capabilities at an ever increasing pace, and what's causing that is that the hot breath of competition is breathing down on our necks.

And, as I've said in a different forum, when I used to be in the private sector I hated competition, I hated my competitors—only in a business way—but their breathing down my neck really made me move.

And the reason I'm a very staunch advocate of very open markets, international competition generally, and smaller government is because I think that creates greater competition. If our ultimate goal, as far as economic policy is concerned, is maximum sustainable economic growth, competition is a very crucial element in there, and unless we have it, our technological skills will erode.

Mr. STENHOLM. Thank you.

Mr. KOLBE. Next is Mr. Smith, who has moved front and center for his questions here.

Mr. SMITH OF MICHIGAN. Chairman Greenspan, I am interested in your opinion of the effects of the total indebtedness and, if you will, over-promises of this government. In addition to the \$4.9 trillion debt that we have in overspending, there's an estimated \$1.5 trillion unfunded liability in the pension requirements for civil service Federal retirees.

I've calculated that the net present value of the unfunded liability of the Medicare program is another \$6.7 trillion—that's using a 2.3 discount rate.

With that same 2.3 discount rate, if we evaluate the current, today's dollar, unfunded liability of Social Security, it's another \$3.85 trillion. You add to that the other obligations that we have made, such as our promises to keep private pension funds whole, et cetera.

Some have estimated that the actuary debt of this country could be as high as \$30 trillion. What is your impression of the effect of that kind of over-obligations on our chances of achieving a greater productivity, greater investment, and overall economic gain?

Mr. GREENSPAN. I assume, incidentally, that the discount rate was a real discount rate, which will probably apply to—

Mr. SMITH OF MICHIGAN. Yes.

Mr. GREENSPAN. Earlier on I was discussing the issue on the basis of a question from the chairman on generational accounting.

This is a very closely related issue, in the sense that you're looking at commitments we're making out into the future. When you begin to recognize their magnitude and put them on a present value basis, it becomes fairly clear that we have a structure that in the 21st century can meet its governmental obligation commitments only if economic growth accelerates quite significantly from where it is, engendering taxable incomes, in effect.

If we don't get the economic growth, and if indeed the commitments create obligations which put pressure on economic growth, then we are clearly in a fundamental disequilibrium, and those issues, at some point and in some manner, are going to have to be addressed, because we will not have the real incomes available to meet the obligations when they come due.

So I think it is incumbent upon us, not necessarily to do full generational accounting, but to engage in the type of exercise that you are involved in.

People may disagree with your discount rate, they may disagree with your projections as to what current policy is involved in, but

I don't think they can disagree with the process you're involved in, namely trying to really look beyond the simple, on-budget type of numbers, which we're all used to looking at. Because, if you're looking at preemption of real governmental resources, you've got to look at not only on-budget debt, but also the types of commitments you're referring to.

Mr. SMITH OF MICHIGAN. Thank you. Let me also ask you a question on the Social Security changes. Yesterday, the Social Security actuaries scored my Social Security bill.

Under our proposed changes, the private investment portion, so an individual could invest their own money, could be approximately between 1 and 3 percent of the existing 12.4 percent, if we have additional investments of individuals, will that result in an increased capital formation?

Mr. GREENSPAN. You mean you're talking about private investment, basically?

Mr. SMITH OF MICHIGAN. Yes.

Mr. GREENSPAN. The issue here is the more general question of privatization of Social Security, which seems to be an increasingly discussed question.

The reason why privatization is a useful thing to think about is not so much that there's a big difference between government funding and private funding, because, unless you increase the overall rate of national saving, merely switching from a government fund to a private fund does nothing. But what a private fund does do is to require you to look at everything from a fully funded basis. If you are an individual, and you are building up a defined contribution plan, for example, or even buying annuities to create a defined benefit plan, at the point of retirement you must have the funds in place in order to pay for your retirement.

As it stands now, we don't do that. We create, essentially, a pay-as-you-go system, and exactly the numbers that you were referring to, the unfunded liabilities, are the type of thing which will gradually alter if we move toward an increasing element of privatization in those funds.

Mr. SMITH OF MICHIGAN. Thank you very much, Mr. Chairman.

Mr. KOLBE. The gentleman from North Dakota, Mr. Pomeroy, is next.

Mr. POMEROY. Thank you, Mr. Chairman.

Dr. Greenspan, on page 6 of your testimony you note that, and I quote, "especially since 1993, our elected political leaders, through sometimes prolonged and even painful negotiations, have been successful in reaching several agreements that have significantly narrowed the budget deficit."

Would you assess the 1993 budget plan that Congress enacted as perhaps the most significant of the legislative efforts to reduce the deficit during that time frame?

Mr. GREENSPAN. I don't want to discuss the individual programmatic changes, but what has happened is the process has changed quite appreciably, for example, on the issue of pay-go and our budget processes. I must say when I first saw them they did not create great enthusiasm on my part, because I had seen too many things fail.

But what has happened is that there has been a sea change in the American public about the issue of deficits, and it's beginning to reflect itself in the processes here, because the reason that process works is that it is very rare that any of your colleagues are willing to get up on the floor and advocate deficit spending.

They used to, as an issue of getting the economy going, but it is very rare that one hears it now and the reason essentially is that there's been a major change in the view of the American people, and that's the reason that type of process can work.

What we are observing is a gradual, difficult, contentious, and very argumentative process, but at the end of the day I must say to you that progress will be made.

And, even though it seems sort of discouraging from time to time, and indeed the most recent couple of months have been discouraging, I think that's a minor disruption in the process which will get us toward a balanced budget and the type of stability which the American people are really increasingly pressuring us all to do.

Mr. POMEROY. In your view, and not to review bill by bill the programmatic undertakings that have brought us to this point, but it is your view then that the 1993 budget plan did make a positive contribution to the economy?

Mr. GREENSPAN. Yes. That is correct.

Mr. POMEROY. You go on to state, more remains to be done, and I agree with you wholeheartedly on that, regardless of some of the policy differences that remain between the White House and the majorities in Congress, for example.

Would it seem to you quite positive if those points in agreement, that further reduce the deficit—in agreement between, for example, the White House plan, the majority's budget plan, and the Coalition's plan—would be captured in legislative enactment this calendar year, further reducing the budget deficit, would that be a positive course for this Congress to pursue?

Mr. GREENSPAN. Well, let me repeat what I said a year ago and a couple of years ago that the budget deficit has come down, in part because of programmatic changes that have been made, and that has had an important effect on long-term interest rates, which have had a positive effect on economic activity.

I said back then that I don't want to get involved in, and shouldn't—

Mr. POMEROY. Of course.

Mr. GREENSPAN [continuing]. In the various issues of whether certain taxes were counterproductive, or certain spending was positive, or the like. I obviously have views—every economist has views—but our interest at the Federal Reserve is in the end result.

Mr. POMEROY. As a budget matter, and we talked about generational accounting, we've talked about some of the other long-term potential liabilities the government has, based on programs it has in effect, this committee, as it evaluates budget plans, has constrained itself very closely to the scoring window, and not paid attention to the impact of components of the budget beyond the scoring window.

This will be my final question, Mr. Chairman.

For example—

Mr. SHAYS [presiding]. The gentleman's time has expired, so if he would—

Mr. POMEROY. OK, I'm concluding my question.

Revenue decreases, that have a very expansive effect, but outside the scoring window, obviously weigh heavily on the long-term viability of a balanced budget proposal.

Would it be your view that this committee should not be so tightly constrained to scoring windows, but look at the long-term impact of, not just the spending side of the ledger, but the tax decrease side of the ledger as well, as it passes budget plans?

Mr. GREENSPAN. I think that is actually what this committee has been doing, and the seeming rigidity of the scoring window constricts everyone, but I think there's a value in that.

If you ask me in the abstract would it be better if you looked at broader things, probably; but I suspect that you may not be as effective. It is inhibiting to be locked into a scoring window, and being worried about that, but somebody's got to do it, and it has been very effective.

And in that regard, I think this committee has been very effective. And while you may say that if you increase your mandate, would it be helpful? Maybe in the abstract, but there may be a cost which I'm not sure you may be willing to pay.

Mr. SHAYS. The Chair recognizes Mr. Kolbe for 5 minutes.

Mr. KOLBE. Chairman Greenspan, welcome, and as usual you give a very thorough and careful and reasoned presentation. I would say your remarks are kind of like a snapshot of the economy, where we are today, though you do talk about some of the challenges.

I notice that in your remarks, though, you don't really focus on long-term problems of entitlement spending, and I'd just like to talk for a moment about that.

Do you agree that, of the challenges—the fiscal challenges, or the policy challenges—that we face in this government and in this society, dealing with entitlements is really one of the most difficult ones, and also one of the ones that we really must address?

And I'd like you to tell me whether it's something you think, for example, Medicaid, Medicare, Social Security, are things we can postpone and deal with at some later time, or whether we really do have to start thinking about it now—dealing with the problem in the present, for future generations?

Mr. GREENSPAN. I've testified before this committee on numerous occasions, without getting into some of the details, that there are problems out there. It's pretty clear that there's a fairly broad consensus that the problems on Social Security in, say, the year 2030 and forward are pretty much recognized. The end result is inadmissible—meaning something has got to be done, obviously, the sooner the better, and I think that's probably a general view of most everybody.

The difficulty is, when you get down to the details, it's not all that easy to get people in the same room to come to the same position.

Mr. KOLBE. Well, let me ask, is it only 2030 that this becomes a problem? It seems to me that when you go negative on the payments in about the year 2012, where you start to really run up the

red ink, that then it becomes a severe problem, at that point, in terms of the borrowing that we'll have to be doing in order to make these payments.

Mr. GREENSPAN. Well, I think that—

Mr. KOLBE. It's not as though the trust fund was cash sitting around somewhere.

Mr. GREENSPAN. No, I'm sure it is not. No, I've always argued that if you perceive a problem, say in the year 2010—it's 15 years away, less than that—that it is far easier to address in many respects now rather than later.

Mr. KOLBE. Absolutely.

Mr. GREENSPAN. I think that the most recent discussions, which I find really quite surprising, about the question of privatization of Social Security by those who for many decades have been very staunch proponents of the stability of the social insurance funds is an indication that these issues are being opened up, for broad, general discussion because there's a recognition out there that something has got to be addressed, and clearly the sooner the better.

So I think that the discussions to approach these issues are already under way—

Mr. KOLBE. So you find it encouraging that this discussion is taking place. I agree with you.

Mr. GREENSPAN. I do indeed.

Mr. KOLBE. My colleague, who has left now, Mr. Stenholm, and I have been trying to lead some of that discussion on the Social Security issue.

I find it also interesting that this is not a phenomenon that's just in the United States, but it's a worldwide phenomenon. Other countries have recognized this as an issue that affects competitiveness, and if they don't deal with it they're going to be behind the eight-ball.

Would you agree?

Mr. GREENSPAN. Certainly.

Mr. KOLBE. And that leads me to my one other question here, very quickly, since my time is running out.

You know, we've had, what, 3 years now, I guess, of unprecedented corporate profits, and yet we keep talking about the fact that wages have not been keeping apace with that.

Do you have any thoughts about why that is the case? Why are we not able to keep pace? Why are wages and incomes not rising as fast as corporate profits have in the last several years?

Is it a lag, or is it an international phenomenon that we're seeing here?

Mr. GREENSPAN. No, I think it's, in part, a lag. That is, we've had periods in which profits have shrunk relative to wages; indeed, periods when profit margins have been going down secularly and we've had them coming back.

In the most recent period, they've been coming back, in the sense that they were exceptionally low a number of years ago, and they've moved back up.

Part of that, as I've said in other testimony, I believe, is the secondary effect of the very rapid changes in technology which have created a significant degree of job insecurity, which has induced

numbers of workers to trade off job security for lower wage increases, and that's been part of the issue.

I don't believe, however, that there's any secular long-term trend here. It's more an intermediate cycle phenomenon and at some point—it may indeed already be occurring—wages will start to rise again at a pace which would be consistent with profit margins declining.

Mr. KOLBE. My time has expired, but let me just follow up on that. Do you see any role of international competitiveness and marketplace—the global economy—playing a role in constraining wage growth in this country?

Mr. GREENSPAN. I think that it's limited, in the sense that most of the impact that wage growth has abroad on the United States comes through imported goods. And imported goods like in fact all goods are only a modest part of our overall economy—services hugely dominate what we're dealing with.

And so its impact is mainly through the manufacturing area, which is only a fifth of our economy. So its effect is not demonstrably extensive in that regard.

Mr. KOLBE. Thank you.

Chairman KASICH. Mr. Olver.

Mr. OLVER. Thank you, Mr. Chairman.

Dr. Greenspan, I'm happy to have you here today.

Mr. GREENSPAN. Thank you.

Mr. OLVER. Congratulations on your reappointment. When does that reappointment of the new 4-year term take effect? What is the beginning date of the new 4-year term?

Mr. GREENSPAN. The beginning date is the date I'm sworn in.

Mr. OLVER. And does that happen immediately upon confirmation? Does that mean the old term is one that has actually expired? Or what? There must be some date of continuity.

Mr. GREENSPAN. Yes. What it is, I am a Governor of the Federal Reserve System, a term of which expires in the year 2006. The President, by law, chooses both the Chairman and the Vice Chairman from the Governors, to serve 4-year terms.

At the moment I am Chairman Pro Tem. My original term as Chairman expired on March 2.

Mr. OLVER. Oh, on March 2. OK, and you had had two such terms previously?

Mr. GREENSPAN. Yes.

Mr. OLVER. OK. By the way, does it give you any pause that the thing that has been most remembered of your testimony last year has to do with your sleeping habits?

Mr. GREENSPAN. I was a little bit startled by that phenomenon.

[Laughter.]

Mr. OLVER. My reason for questioning the first point was just because we have had data on the rates of inflation, and unemployment rates, and, given that you have been the Chairman of the Board of Governors for 8 years prior to March, that takes us back into 1988—at least into 1988.

Mr. GREENSPAN. Actually, there was another hiatus in one of the terms, so it goes back to August 1987.

Mr. OLVER. OK, fine, and I don't want to explore back that far, but it would appear to me that, at least for the years 1991 through

1995, and probably the 1991 data are affected by the very—the recession of that period, reducing the inflation rate.

But finally the inflation rate, as an average for 1991, got down to a quite reasonable number. But if you then look at the unemployment rate and the inflation rate, the unemployment rate has actually come down continually while the inflation rate has managed to come down continually.

I would think that you probably feel that the monetary policies have been quite successful in that.

Are you satisfied with that result during that period of time? It is my impression, maybe—you can correct me if I'm wrong—that the unemployment rate has basically, since 1992 data, has come down steadily—I've taken the long-term—and the inflation rate has continued to come down.

Mr. GREENSPAN. I would say we're pleased, but not fully satisfied, because in central banking you always have to worry. The day you stop worrying is the day the world visits upon you events which you would prefer not to have happened.

Mr. OLVER. Well, interestingly enough, there is almost a direct relationship there between inflation—and I'm sure that that—you would object to the concept of a direct relationship here—

Mr. GREENSPAN. No, not fully.

Mr. OLVER. Because the unemployment rate has come down since those 1992 data virtually an equal percentage to the inflation rate coming down.

Mr. GREENSPAN. Well, no, actually the model is essentially that as inflation expectations and inflation have come down, long-term interest rates have fallen, and that has induced economic expansion, which is the cause of the decline in the unemployment rate, so that they're not unrelated. They are related.

Mr. OLVER. OK, they are directly related then. OK, good. One of the things that are very much on the front pages right now is the issue of minimum wage, and the minimum wage, as you know, in terms of constant dollars, or 1995 dollars, if I may use that, is at its lowest point in quite a number of years—usually 40 or so years.

The data that I have in front of me show the minimum wage being at about \$6 an hour in 1995 dollars, on average, from 1967 to 1980, or thereabouts, as a 14-year period of data where it's pretty close to that \$6 level, and it would certainly average out in that area.

But it's now down below 70 percent of that, and the proposed minimum wage increase that has been made would not even, of course, bring it up to what it was in buying power before the last one, which also occurred in—you've had such a long span here that a lot of things happened.

Could you give me an idea of what effect you would expect that proposal, either in terms of what such a proposed increase would have upon unemployment and inflation rates, as an upward pressure for wages, and what doing nothing would have in the obverse, in terms of being a downward—further downward—pressure, as that buying power of the minimum wage continues to fall, compared with what it was at earlier times?

Chairman KASICH. Could I, Mr. Chairman, just say to Mr. Olver that the Chairman is at a very sensitive time, and frankly he

wasn't really enamored with the idea of coming before this committee.

Last night on C-SPAN I see Teddy Kennedy promoting the increased minimum wage bill. I really am not sure that the Chairman is comfortable answering that before his confirmation.

I don't want to get him—John, what I'm trying to do is not get him in a bind, so that he has to read tomorrow—and if the Chairman doesn't want to answer that question until he's at Senate confirmation, that's fine with me.

Mr. OLVER. Mr. Chairman, I believe that Chairman Greenspan had leaned forward with relish, intending to answer in some kind of a way to—

[Laughter.]

Chairman KASICH. Well, if he relishes—hey, look, far be it from me to stop Alan Greenspan from answering a question.

Mr. OLVER. I don't think that Chairman Greenspan needs your direction about the sensitivity of the question.

Chairman KASICH. Well, John, look, he's an honest, intellectual guy. I just know that anything he says on minimum wage is on the front page of the Washington Post tomorrow, and I don't want to put him in that bind, because I gave him my word I would keep him out of a political mess up here. [Laughter.]

So if you want to answer it, Alan, this is a great one to answer. Figure out whom you want to make happy—Dole or Kennedy?

Go ahead.

Mr. GREENSPAN. I will demonstrate why economists are called two-handed economists.

The issue really gets down to a basic judgment as to whether you believe that the minimum wage affects the level of jobs. There is a dispute that is currently going on in the academic fraternity about the issue as to whether the rise in the minimum wage causes job loss.

It used to be that most economists argued that it did, and it was an unqualified view. Now there is a mixed view on it.

I think what the chairman is saying is, I don't have to come to a conclusion on this discussion.

Mr. OLVER. Well, OK, could you whisper it in my ear?

[Laughter.]

Mr. GREENSPAN. Certainly.

Mr. OLVER. You know, it's interesting that what you've just—

[Laughter.]

Chairman KASICH. Oh, this is too much.

Mr. OLVER. No, what I think your answer is, in part, is that if it's small enough, then it won't have any effect at all—in part, if the debate in the academic world is as—but of course, if it's small enough it won't have any impact at all.

Which is the same—which is a different, obverse way of looking at the word "effect."

Mr. GREENSPAN. Correct.

Chairman KASICH. I forgot his normal dexterity here. He didn't need any help.

Mr. Hoke is recognized.

Mr. HOKE. Thank you, Mr. Chairman.

I learned something—I want to follow up with what Mr. Kolbe was saying, because I think that I learned something that I was not aware of from his questioning.

Let me get this straight. We're saying that in the year 2012 we actually begin to dip into what is known as the Social Security Trust Fund? That's correct?

Mr. GREENSPAN. Well, that's under existing assumptions. And then remember that we can't forecast that accurately, but my recollection is that's probably correct.

Mr. HOKE. OK, it doesn't matter whether we say 2010, 2012, 2014—I mean, different scenarios, but the number that has always been used as the number when we actually have a problem with the Social Security system, in that it goes "bankrupt," is the year 2025, or 2030.

Mr. GREENSPAN. That's when the fund disappears.

Mr. HOKE. But the fund doesn't exist today, except on the basis of an IOU from the Federal Government, so the fund really disappears, for all practical purposes, in 2012, 2014, 2010—whenever it is, because the money still has to come from somewhere to pay off the IOU, the somewhere, of course, being the taxpayer.

Have I got this right, or am I—

Mr. GREENSPAN. Yes, that's correct.

Mr. HOKE. Well, so then the problem really—I mean, when I'm in these town meetings and people say, well, this is great that you're addressing the Medicare problem, because that's the pressing one, but what about Social Security, and I say, well, we have a little more time to deal with that, because that problem really doesn't become pressing until 2025 or 2030—I'm dead wrong on that.

The problem is very real in anywhere from 15 to 20 years.

Mr. GREENSPAN. I think that if we're going to be certain that the Social Security recipients, as we move beyond, say, 2010, have confidence that those contracts are going to be honored, it's clear that we have got to take certain measures to ensure that those promises to Social Security beneficiaries are indeed met. And what the data now show is that we're going to have to make certain changes to make certain that that occurs.

Mr. HOKE. OK. Let me—and there's never enough time, and I really enjoy asking you these questions and getting your thoughts—you've stated a couple of times today, in response to different questions, that there is a general broad understanding all of a sudden that deficits are not to the advantage of the American economy, not to the advantage of the American people, and that as a result of that the debate is no longer about if we will balance the budget, but really the debate is about how, or in what ways we will balance the budget.

And I'd like to point out two things about that, and I suppose I'm making a political point, but I'm also making another point. The political point is that the budget that Mr. Clinton presented to us in February 1995 was a budget that never came into balance, that had \$200 billion deficits for as far as it was projected out, and there was no premium put on bringing the budget into balance.

And I think that it's only because there has been a new majority in the Congress, clearly reflecting the will of the people, and that

the system has worked in that respect, that we are talking about this.

And so, when we sort of blithely say, well, Americans have finally figured out that deficits aren't to their advantage, I think it sort of overlooks a little bit the political reality, which is that this debate has moved a country mile as a result of the change in Congress.

But the other point that I would make, which is much more of a practical point, is that I don't think even that is so much because there has been a kind of an intellectual understanding of the problem with deficit spending, but it's we can't afford it.

We're at a point now where we're going to spend, for the very first time in the history of our republic, more on interest than on national security. That's never happened to us before.

And so, it's not—I mean, whether you like it or you don't like it, I mean, to the extent that you continue to add deficits to the debt, you know, the interest has to be paid.

So, do you have any thoughts on that? Especially the second part. I wouldn't ask you to comment on the first part.

Mr. GREENSPAN. Yes, this is not a political issue. This is basically an issue of accounting and bookkeeping, and that's what the process is all about. And I think the reason why, in the Social Security area, a number of people who have been very staunch proponents of keeping the system the way it's been for a very long period of time are now in the forefront of recommending change is because they are concerned, and I think quite appropriately, that, unless something is altered in the projection of receipts and outlays to these programs, there will be difficulty in meeting benefit obligations in the early part of the 21st century.

Mr. HOKE. Mr. Chairman, I see that my time has expired. I don't know if we're going to go around again—

Chairman KASICH. I want to make a couple of points here, and then if—I want the Chairman to be out of here by 5 or 10 after—the next 10 minutes, if we can—but I want to go back, because I think Martin Hoke has hit on something.

See, Mr. Chairman, the reason why I asked you about the generational accounting, and the reason that I'm so interested in it, is because what we currently call the deficit is a jerry-rigged deal.

Now, look, it is typical of this Nation now to begin talking about Social Security. I don't even want to talk about Social Security, from the standpoint of we can't get Medicare and Medicaid done.

So now what we do is, when we find the going gets too tough on Medicare and Medicaid, we say, oh, well, let's talk about Social Security.

Look, generational accounting is designed to give you an accurate assessment of what the obligations are going to be of the next generation. Look, our Medicare is going to be bankrupt in 6 years, our employee pensions—our civil service retirement—I don't know how much that's in debt, but it is way—it's not a sound fund.

There's not a sound program there to pay for retirement of our Federal workers.

Do you know that, over the next 7 years—and this is just a fact—we're going to spend \$924 billion on Medicaid, almost a tril-

lion dollars on Medicaid? Do you know that we cannot bank \$85 billion in savings right now? We're going to spend a trillion dollars and we can't save \$85 billion for the next generation?

Welfare, we're going to spend \$717 billion on welfare, and our latest proposal is \$62 billion in savings, and we think that we've awakened here. And this is what we're committing to for 7 years.

It's like finding out, you know, you've got a tumor—you've got a tumor here, and you're going to put off treatment for 7 years. What generational accounting will do, it will do precisely what Mr. Hoke is talking about.

I mean, it's great to say that we're going to pay all these IOUs out there, but how—I mean, in order to pay them we either presume a political change—this is the end of the 20th century, and I can't figure out how to save \$85 billion out of a trillion dollars.

Do you see what I'm saying? I mean, if we don't start—that's why we need generational accounting, and when it comes to savings, if we can't save more than \$85 billion out of a trillion dollars in Medicaid, to think that we're going to solve these problems that are far more political, and far more enormous, at the same time we're going to boost national savings—I mean, we're whistling past the graveyard.

And I really do not believe that we have a political consensus now to save the next generation. I do not believe that we have established it.

I just really believe that we have an obligation to start being, you know, Paul Revere. He's in history because he—you know, we need to ride the horse, I think, Mr. Chairman. Take another whack at generational accounting, and what are we going to do?

I mean, do you consider \$85 billion out of a trillion dollars worth of spending—first of all that's being declared as draconian—did you know that?

We want to save \$85 billion out of a trillion dollars in a growing entitlement area, and it's being described as draconian. You know, I mean if we're going to be described as draconian, maybe we ought to make a significant change.

I mean, you just need—this is—and then they say, oh, we're only a few dollars away. A few dollars away from what? From burying the problem in the ground, and letting the young people of this country discover it, one day? That's what I think we're a few dollars away from doing.

So how can we expect to have investment, savings, higher productivity and better jobs for our people if we don't achieve this fundamental change in this country? Can we do it without this fundamental change?

Mr. GREENSPAN. Well, if you're saying, can we do it without generational accounting procedures, I'd say that the generational accounting as a process is merely a formalization of a whole set of different estimates of which, when we talk about unfunded liabilities, is the equivalent of that.

And, as I said, the reason why—

Chairman KASICH. But don't we need to let those people know that there are liabilities that they're going to have to work a lifetime to—



Mr. GREENSPAN. Oh, I agree with that. I'm not saying that we shouldn't use it. I'm just basically saying that we shouldn't codify it at this particular stage and require them to publish the numbers in a form which is still undergoing evaluation and discussion.

I think the concept is unquestionably exceptionally useful. I think the process of evaluating what types of potential net tax rates there are out there for new generations is very useful.

Chairman KASICH. So if we have—and I'm going to recognize Mr. Sabo—but look, if we have a projection of an 84-percent tax rate, our national savings rate is gone, isn't it?

Mr. GREENSPAN. Eighty-four percent will never be achieved.

Chairman KASICH. How about 70 percent?

Mr. GREENSPAN. Well, I'm just basically saying that the economy will not stand still—something will happen before you get there.

Chairman KASICH. That's exactly right, and that means that our people, our workers—not our rich—rich get rich in good times, and they get rich in bad times—but our workers, my dad, Martin's father—I mean, they're going to have nothing, right? if we don't get this stuff under control, and nobody knows this.

Mr. GREENSPAN. I think everybody knows it, Congressman.

Chairman KASICH. Mr. Sabo.

Mr. SABO. Thank you, Mr. Chairman.

Let me—we need to do long-term planning, which means looking at years ahead on some basic programs, like how we deal with long-term retirement plans, and that has to be part of the agenda—both how we fund them and the relative level of benefits.

Mr. Chairman, we have to look at how we reform health care. Frankly, that went off the agenda in 1981 and through the whole 1980's. It didn't relate to vastly expanding services, but it simply went off the agenda of how we control ever escalating health care costs in this country.

It's coming back on. Thank goodness. The President put it back on 2 years ago, and everybody said no, and now we're looking at more targeted ways of how we modify Medicaid and Medicare. In reality, Medicaid goes up and down with the variations in the economy.

But, Mr. Chairman, I have to tell you that I hear all this discussion about how we save the next generation, and at the same time we're involved in a fight right now where we're going to cut Title 1 funding for kids, we're going to cut Headstart funding for kids, we're going to cut education training funds for young people, and workers being retrained.

Let me tell you, Mr. Chairman, that's not how they need to be saved. Those are fundamental problems. They sit in my school district and I suspect every other school district in the country right now is sitting at a point where they have to make a decision about the number of teachers for next fall.

Some of the most difficult problems schools have to deal with involve kids with whole hosts of problems. They don't know whether they have to fire teachers next fall, because the Congress may or may not cut Title 1 funding for the next school year.

I would just simply say, that's a lousy way to save the next generation. And further, this Congress at one point was looking at major modifications of how we fund higher education in this coun-

try through cutting the student loan program. Fortunately that went off the agenda.

That went off the agenda because the students got organized in this country. I just can't help note, those tended to be more affluent students who got that off the agenda; the poor kids, who are going to be dependent on Title 1 teachers, or Headstart funding, that's very much the leverage being used to achieve other goals.

Social Security, we've got to sort through it, and I think we will. It's not going to be easy, but it isn't going to be done by these scare tactics either—this sort of generational feuding.

The fact is, we have a problem with how we deal with that long-term problem, and we've got to get at it. At one point I hoped we could; but that's clearly not on the agenda for the next year or two.

But we also deal with the fundamental investment—this country, the Federal Government, State, and local government—makes in educating kids. That also is a significant transfer of resources from people working today to younger folks, and a very important investment we make in the future.

So as we go about all this rhetoric about saving the next generation, I hope we don't destroy the kids before they become adults.

Chairman KASICH. Well, Mr. Chairman, I'm not going to prolong this debate between our different views of government, but I would commend to everybody in this room Mr. Wattenberg's book on "Values Matter Most," where he questions the fact that, are our kids being educated today?

And Mr. Wattenberg would take a look at the programs that we currently have, and you pointed out in your testimony that we have increasing numbers of children who are not capable, but yet we keep looking to the Federal Government to solve our problems out there.

And I would just suggest that everybody read the Wattenberg book. He is not a Republican, he's a Democrat, and he maintains increasingly that we are putting kids in school for 12 years, and they're not learning, and it is falling increasingly on the backs of our business community to turn around education.

Now, this is going to be a challenge that I hope Mr. Sabo and I are going to work to figure out how we give a quality education to our children.

The current model isn't working, and I hope we're going to break the current model to give every kid a chance. I mean, I just commend to you that book, and look at what is happening to children in New York and Los Angeles, in Chicago and Atlanta and Miami, and every major city in this country, where I'm not sure kids are achieving.

And all of the studies indicate that they're not getting the kind of education they ought to be getting in this country today, and Title 1 isn't just the issue. It's a whole model of how we do education, but this is a debate we save for some forum that maybe you ought to have, Mr. Chairman, where we talk about the future of opportunity in this country.

There's nothing that suggests in my mind we have figured out a way to boost savings, and therefore to boost productivity and give people a brighter future. There are ways to do it, but it requires

some discipline, and not stealing from the present in order to serve the next.

It just requires a decent mix.

Mr. Chairman, I appreciate your being here today.

The Budget Committee will stand adjourned.

We very much appreciate your being here, and good luck in your confirmation.

Mr. GREENSPAN. Thank you.

[Whereupon, at 12:10 p.m., the committee was adjourned.]



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